

VZCZCXRO3671
PP RUEHBI RUEHCI
DE RUEHBI #1602/01 2410804
ZNR UUUUU ZZH
P R 290804Z AUG 06
FM AMCONSUL MUMBAI
TO RUEHC/SECSTATE WASHDC PRIORITY 4409
INFO RUEHNE/AMEMBASSY NEW DELHI 5634
RUCNNSG/NUCLEAR SUPPLIERS GROUP
RUEHBI/AMCONSUL MUMBAI 9190
RUEHCI/AMCONSUL CALCUTTA 1106
RUEHCG/AMCONSUL CHENNAI 1207
RUEHIL/AMEMBASSY ISLAMABAD 0640
RUEHLM/AMEMBASSY COLOMBO 0643
RUEHKA/AMEMBASSY DHAKA 0636
RUEHBJ/AMEMBASSY BEIJING 0052
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEKJCS/SECDEF WASHDC
RUEAIIA/CIA WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC

UNCLAS SECTION 01 OF 03 MUMBAI 001602

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SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ENRG](#) [EFIN](#) [EINV](#) [PREL](#) [PGOV](#) [SENV](#) [SEXP](#) [EPET](#) [EMIN](#)

ETRD, IN, CH

SUBJECT: CEQ'S CONNAUGHTON ENCOURAGES MAHARASHTRA GOVERNMENT,
BUSINESS LEADERS TO SUPPORT APP

REF: MUMBAI 1577

¶1. (SBU) In a series of meetings on August 24 in Mumbai, CEQ Chairman James L. Connaughton encouraged Government of Maharashtra (GOM) officials and Indian business leaders to support the Asia-Pacific Partnership on Clean Development and Climate (APP). He also briefed his interlocutors on the status of the proposed U.S.-India civil nuclear agreement. (His Mumbai meeting with the Department of Atomic Energy is reported reftel.) Connaughton's GOM interlocutors told him that high levels of sewage in Mumbai's water supply and air pollution in the state's urban hinterland were Maharashtra's most pressing environmental problems. Poor infrastructure compounded the state's environmental problems. Connaughton also heard that the state's demand for power far outstripped supply, that 31 percent of power is currently lost to inefficiencies and theft, and that demand was expected to rise rapidly over the next 5-6 years. Connaughton encouraged the GOM to tap the APP and venture capital initiatives to meet these concerns. Industrialist Ratan Tata warned Connaughton that vested interests within the Indian nuclear establishment, led by the Atomic Energy Commission, could cause the civil nuclear deal to be implemented at an "extremely slow pace." Tata said the USG should encourage the GOI to open the civil nuclear sector to public/private partnerships. In his meetings with local business groups, Connaughton said \$17 trillion would be invested in energy and infrastructure projects throughout the world in the next three decades. He emphasized that the APP would not work without private sector participation and urged his interlocutors to stay engaged in the APP process. End Summary.

Meeting with GOM Officials

¶2. (SBU) James L. Connaughton, Chairman of the White House's Council on Environmental Quality (CEQ), met on August 24 in Mumbai with Government of Maharashtra (GOM) officials, including Chief Secretary DK Sankaran, Secretary for Energy Bhagwan Sahai, and Principal Secretary for Environment Sharvari Gokhale. Connaughton briefed his interlocutors on the status of the Asia-Pacific Partnership on Clean Development and Climate (APP) and the planned U.S.-India civil nuclear agreement. Connaughton highlighted pollution management and energy development, issues

identified by his interlocutors as being of paramount importance to the GOM.

¶3. (SBU) Gokhale told Connaughton that water pollution in Mumbai and air pollution in landlocked urban areas were the state's most pressing environmental problems. Poor infrastructure hampered efforts to improve the situation, she said. The GOM had successfully reduced the amount of industrial waste entering Mumbai's water supply, but the city's 18 million residents suffered from severe undersupply of potable water due to inadequate sewage treatment and disposal systems, Connaughton heard. Gokhale also noted that air pollution was a major problem in some hinterland cities such as Pune and Solapur, which lacked Mumbai's coastal wind patterns. Poor public transportation infrastructure, lax regulation and outdated technology hampered efforts to improve the situation, he said.

¶4. (SBU) Sahai told Connaughton that Maharashtra currently had 13,000 MW of power generation capacity, far short of the 20,000 MW of demand expected by 2012. Maharashtra could not sustain its current 8 percent growth rate if generation capacity and distribution networks were not expanded, Connaughton was told. Chief Secretary Sankaran added that the state could grow far faster in the coming years as the state planned to develop 50 business-friendly Special Economic Zones with high energy requirements. Maharashtra already had a 12 percent power deficit during peak hours, Connaughton was told. The shortage would grow if supply was not expanded soon. Compounding this problem, a full 31 percent of all electrical power generated in Maharashtra was lost to inefficiencies and theft, Sankaran said.

¶5. (SBU) Mumbai did not face the power shortages common elsewhere in the state because generation and distribution in the city had been privatized over 70 years ago, Connaughton was told. Mumbai is in the process of soliciting bids for new

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private power, outside of the context of the GOI's "ultra-mega power plant initiative. Despite the 4,500-5,000 MW short fall that exists outside of Mumbai, political realities have prevented replication of the city's successful privatization model elsewhere in the state, Sankaran explained.

¶6. (SBU) Sahai said renewable energy was not fully exploited in Maharashtra. Of the estimated 7,000 MW of potential renewable energy, only 1,300 MW had been harnessed. Lucrative investment opportunities existed in developing hydro-electric and solar energy projects. Connaughton encouraged the GOM to tap the large amount of venture capital already being spent on energy initiatives. The Carlyle fund is raising a \$1 billion fund for energy and infrastructure, while Goldman Sachs is investing \$3 billion. The challenge for Indian investors was to attract venture capital to energy-related projects. Connaughton explained that the APP's Buildings and Appliances Task Force would be an excellent resource for the Government of Maharashtra, as it explored solar energy and other materials and design, which could be integrated into buildings.

Meeting with Chairman Tata

¶7. (SBU) In a separate meeting, Ratan Tata, Chairman of the Tata Group and Indian Chair of the U.S.-India CEO Forum, warned Connaughton that the Indian nuclear establishment, led by the Atomic Energy Commission, would likely implement the proposed bilateral civil nuclear agreement at an "extremely slow pace" because of its vested interests and its less than enthusiastic support for the deal. To encourage a robust implementation of the deal, Tata said the GOI should be encouraged to open the nuclear energy industry to public/private partnerships, and asked for USG assistance in this regard.

¶8. (SBU) Tata also encouraged the U.S. to intensify bilateral efforts to develop hydrogen fuel. Responding to Tata's request, Connaughton said U/S of Energy David Garmon could act as India's liaison for hydrogen fuel development. From the U.S.

perspective, Connaughton said, Indian hydrogen fuel initiatives tended to wither away in the Ministry of Non-Conventional Energy. The Indian private sector would need to counteract this inertia if progress was to be made. Tata also said he hoped the CEO Forum would focus more on advanced technologies, such as nanotechnologies and materials, and not on "mundane" sectors, where the Forum has made little progress to date. Connaughton described a number of new technology initiatives under way in the USA of which Tata was unaware and pleased to know were taking place, such as cellulosic ethanol and clear diesels.

Engaging Mumbai's Influential Business Associations

¶9. (U) In meetings with the American Chamber of Commerce, the Indo-American Chamber of Commerce (IACC) and the Confederation of Indian Industry (CII) in Mumbai, Connaughton said that investors planned to pump US \$17 trillion into energy and infrastructure projects around the world in the next several decades. He emphasized that the APP would not work without private sector participation and encouraged his interlocutors to remain engaged in the APP process. Connaughton asked them to weigh in with the GOI to remove countervailing tariffs on energy efficiency and environmental products and services and to further strengthen India's IPR regime, which was needed to attract first-class clean environmental technology into the country.

¶10. (U) Connaughton also addressed concerns raised by several interlocutors regarding the Indian parliamentary debate on the U.S.-India civil nuclear deal. He drew parallels between the reactions of the legislatures in both countries, and asked private industry to urge the Indian public not to overemphasize the outstanding differences that existed in the various drafts of the legislation in Congress. It was important to focus on the broader framework of the deal. Ranga Iyer, Managing Director of Wyeth, pointed out that the Indian Prime Minister had secured a major victory by roping in the support of the Left

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party which was previously opposed to the deal. Alok Gupta, Western Region AmCham Chairman and Managing Director of Cabot India, claimed that the opposition voiced by former leaders of the Indian nuclear establishment reflected a mindset. The establishment feared losing the leadership role and privileges that it had enjoyed since the creation of the Indian nuclear program.

¶11. (U) CEQ Chairman James Connaughton cleared this cable.
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